Executive Summary

This Budget announces wide reaching reforms to the tax system to reward work and support growth. These reforms will lower headline rates, diversify and broaden bases and limit reliefs — based on the principle that the tax system should be fair, efficient and simple.

Budget 2012 also announces the next stages in the Government's plans for the supply side of the economy. The Government is committed to driving through the measures announced in *The Plan for Growth* and Autumn Statement 2011, and is taking further steps in this Budget to stimulate investment, exports, enterprise and the labour market.

The action the Government has taken since the June Budget 2010 has restored and maintained stability and positioned the UK as a relative safe haven, with market interest rates near record lows. Budget 2012 maintains the Government's strategy and sets out the further action the Government will take in three areas:

- a stable economy;
- a fairer, more efficient and simpler tax system; and
- reforms to support growth.

A stable economy

The financial crisis of 2008 and 2009 exposed an unstable and unbalanced model of economic growth. As a result of that crisis, and unsustainable levels of public spending, the Government inherited the largest deficit since the Second World War and the UK experienced the biggest recession of almost any major economy.

Over the course of 2010 and 2011, the UK economy was hit by a series of further shocks — with commodity price driven inflation reducing real incomes, the impact of the euro area debt crisis damaging confidence, and the ongoing structural impact of the financial crisis weakening economic recovery.

The Government has taken decisive action to protect the economy and has set out a comprehensive strategy to achieve strong, sustainable and balanced growth, based on:

- fiscal consolidation to return the public finances to a sustainable position and meet the Government's fiscal mandate;
- monetary activism to support the recovery, focused on meeting the inflation target and increasing the availability of credit;
- financial sector reform to build resilience and reduce risks to taxpayers;
- tax reform to make Britain one of the most competitive places to do business; and
- microeconomic reforms to strengthen the economy in the medium term.

In line with this strategy, **this Budget's policy decisions have a neutral impact on the public finances, implementing fiscal consolidation as planned.** The costs of policy

decisions announced in this Budget are offset by measures to reduce borrowing. They result in a reduction in taxation and spending of over £2 billion across the forecast period.

The Government is also taking action to tackle long-term fiscal challenges associated with an ageing population. **Budget 2012 announces that the Government will commit to ensuring the State Pension age is increased in future to take into account increases in longevity and will publish proposals at the time of the Office for Budget Responsibility's (OBR) 2012 *Fiscal sustainability report*.**

Economy and fiscal forecasts

While euro area growth forecasts have been revised down significantly since Autumn Statement 2011, **the OBR forecast for UK growth and inflation is broadly unchanged from its November 2011 forecast. It continues to forecast subdued but positive growth, consistent with experience from past financial crises, with the recovery likely to be particularly uneven this year.** The OBR forecasts the economy will avoid recession, as does the Bank of England's February 2012 *Inflation Report*.

The OBR's fiscal forecasts are also broadly in line with those presented at Autumn Statement 2011:

- **public sector net borrowing will fall from its post-war peak of 11.1 per cent of GDP in 2009–10 to 4.3 per cent in 2014–15 and to 1.1 per cent in 2016–17;**
- **borrowing is £11 billion lower over the forecast period than was predicted at the Autumn Statement 2011.**[1] **The deficit in the cyclically-adjusted primary balance has been halved over the last two years, falling from -7.0 per cent of GDP in 2009–10 to -3.4 per cent of GDP in 2011–12.** This measure of the deficit is expected to approach balance in 2014–15;
- **public sector net debt is forecast to peak at 76.3 per cent of GDP in 2014–15, falling to 74.3 per cent in 2016–17, lower than forecast in November 2011.**

Implementation of the Government's fiscal consolidation plan is under way and on course. **By the end of 2011–12, almost 40 per cent of the annual fiscal consolidation planned for the Spending Review 2010 period will have been achieved.**

The Government will reduce the Special Reserve to reflect the end of UK combat operations in Afghanistan by the end of 2014. This is funding held over and above the Ministry of Defence budget. The cost of operations will continue to be paid on the same basis. At the same time, **the Government will reinvest £115 million of the reduction in the Special Reserve provision to improve service accommodation and support military personnel and their families.**

As set out in the OBR's March 2012 *Economic and fiscal outlook* the OBR's judgement is that the policies set out in this Budget are consistent with a roughly 60 per cent chance of achieving the Government's fiscal mandate in 2016–17, and with meeting the supplementary target for debt in 2015–16.

Against the backdrop of historically low long-term interest rates and in light of evidence of strong demand for gilts of long maturities, **in 2012–13 the Debt Management Office will consult on the case for issuance of gilts with maturities significantly longer than those currently in issue, that is in excess of 50 years, and/or perpetual gilts.**

The first section of Chapter 1 sets out the Government's economic and fiscal plans in more detail.

[1] Excluding the transfer of Royal Mail assets and liabilities. See Chapter 1.

A fairer, more efficient and simpler tax system

The Government is committed to creating a more sustainable tax system that is fair and supports growth. The Government will: reward work and support families; reduce tax rates to increase the competitiveness of the UK tax system; restrict tax reliefs and ensure everyone pays the tax they owe; and make the tax system simpler and more sustainable overall.

Greater rewards for work

The Government has a stated objective to support those on low and middle incomes and reward work by making the first £10,000 of income free from income tax. This Budget announces that **the Government will increase the personal allowance by a further £1,100 in April 2013, taking it to £9,205 in total.** This is the largest increase in the level of the personal allowance in both cash and real terms for the last thirty years and the largest real personal tax cut for the median earner in over a decade.

A proportion of the benefit will be passed on to higher rate taxpayers. Rather than pass on the full benefit, an equivalent amount of funding will be provided to assist in the fair implementation of Child Benefit reform.

Budget 2012 announces that Child Benefit will be withdrawn through an income tax charge, and that the charge will only apply to households where someone has an income over £50,000 a year. For households where someone has an income between £50,000 and £60,000 the charge will apply gradually, preventing a cliff edge effect. Only households where someone has an income in excess of £60,000 a year will no longer gain from Child Benefit.

In addition the Government will:

- **provide additional funding of up to £325 million across the Spending Review 2010 period for the Department for Work and Pensions to implement its strategy for tackling fraud and error in the benefit system;** and
- **reform the State Pension into a single tier pension for future pensioners.** The new system will be set at a level above the means tested standard Guarantee Credit, and all State Pension records will be recognised.

Reducing headline tax rates

The Government's ambition is to create the most competitive tax system in the G20. Budget 2012 announces reforms that will lower headline tax rates to support enterprise, aspiration and growth, while ensuring that tax revenues from the best-off are higher in each year. The Government will:

- **reduce the top rate of income tax from 50 per cent to 45 per cent from April 2013;** and
- **reduce the main rate of corporation tax by an additional one per cent from April 2012. The rate will therefore fall by two per cent, from 26 per cent to 24 per cent in April 2012, to 23 per cent in April 2013 and to 22 per cent in April 2014.**

A fairer tax system

The Government is committed to a fair tax system in which those with the most contribute the most. To ensure it receives more revenues from the highest earners, the Government will:

- introduce a limit on all uncapped income tax reliefs. **For anyone seeking to claim more than £50,000 of relief, a cap will be set at 25 per cent of income.** This will increase effective tax rates and help ensure that those with the highest incomes pay a fairer share;
- increase the tax charged on high value properties, by **introducing a new Stamp Duty Land Tax (SDLT) rate of 7 per cent for residential properties over £2 million.** This will apply from 22 March 2012;
- tackle the 'enveloping' of high value properties into companies to avoid paying a fair share of tax. **The Government will introduce a 15 per cent rate of SDLT to be applied to residential properties over £2 million purchased by non-natural persons, such as companies.** This new rate will take effect on 21 March 2012. In addition, **the Government will consult on the introduction of an annual charge on residential properties valued at over £2 million owned by these persons** with the intention of legislating in Finance Bill 2013 for commencement in April 2013;
- **extend the capital gains tax regime to gains on the disposal of UK residential property by non-resident, non-natural persons, such as companies,** to support these changes. This will commence from April 2013, following consultation on the details of the measure; and
- **accept the recommendation of the Aaronson Report that a General Anti-Abuse Rule (GAAR) targeted at artificial and abusive tax avoidance schemes would improve the UK's ability to tackle tax avoidance** while maintaining the attractiveness of the UK as a location for genuine business investment. The Government will consult with a view to bringing forward legislation in Finance Bill 2013.

A simpler and more sustainable tax system

To simplify the tax system while diversifying the tax base and improving medium-term sustainability the Government will:

- move towards a simpler, single personal allowance regardless of age **by freezing existing age-related allowances (ARAs) from 6 April 2013 at their 2012–13 levels (£10,500 for those born between 6 April 1938 and 5 April 1948, and £10,660 for those born before 6 April 1938) until they align with the personal allowance. From April 2013, ARAs will no longer be available, except to those born on or before 5 April 1948. The higher ARA will only be available to those born on or before 5 April 1938.** These changes will simplify the system and reduce the number of pensioners in Self Assessment;
- **correct certain anomalies in the VAT system that cause very similar products to be taxed differently. The Government will also close loopholes in the VAT system to prevent avoidance and ensure compliance;**
- **introduce from April 2013 a new cash basis for calculating tax for small unincorporated businesses,** following consultation. This will reduce the time it takes for these businesses to calculate their tax;
- **provide from 2014–15, a new Personal Tax Statement for around 20 million taxpayers.** This will detail the income tax and National Insurance contributions (NICs) they have paid, their average tax rates, and how this contributes to public spending; and
- **launch a detailed consultation on integrating the operation of income tax and NICs.** This will be published after the Budget and build on extensive work undertaken with stakeholders through 2011. It will set out a broad range of options for the operation for employee, employer and self-employed NICs.

The second section of Chapter 1 sets out the Government's reforms to the tax system in more detail.

Reforms to support growth

The Government has set out its plan to put the UK on a path to sustainable, long-term economic growth. As part of this, *The Plan for Growth*, Autumn Statement 2011 and *The National Infrastructure Plan 2011* announced a wide-ranging programme of over 250 economic reforms and investment in infrastructure to help achieve the Government's ambitions for the UK economy.

The Government has made significant progress in delivering these reforms. In addition the Government will:

- **take forward many of Alan Cook's recommendations for the roads, including developing a national roads strategy and setting a renewed focus on the level of performance expected from the Highways Agency. The Government will also consider whether to go further and will carry out a feasibility study into new ownership and financing models for the national road network, learning lessons from the water industry, to report on progress by Autumn Statement 2012;**
- **make Belfast, Birmingham, Bradford, Bristol, Cardiff, Edinburgh, Leeds, London, Manchester and Newcastle super-connected cities, as part of the £100 million investment announced at Autumn Statement 2011.** By 2015 this will deliver ultrafast broadband coverage to 1.7 million households and 200,000 businesses in high growth areas as well as high-speed wireless broadband for three million residents. **The Government will also provide an additional £50 million to fund a second wave of ten smaller super-connected cities;**
- **invest £60 million to establish a UK centre for aerodynamics which will open in 2012–13 and support innovation in aerospace technology, commercialise new ideas and spin-off technologies with wider applications in other sectors;**
- **support Network Rail to invest a further £130 million in the Northern Hub rail scheme, subject to value for money, to improve transport links between Manchester and Sheffield, Rochdale, Halifax, Bradford, Bolton, Preston and Blackpool, and to increase capacity on the Hope Valley line between Manchester and Sheffield, which will enable the number of fast trains to double;**
- **support the establishment of a new Pension Infrastructure Platform owned and run by UK pension funds, which will make the first wave of its initial £2 billion investment in UK infrastructure by early 2013.** A separate group of pension fund investors has also presented proposals to the Treasury for increasing pension plan investment in infrastructure in the construction phase;
- **relax Sunday Trading laws from 22 July 2012 to 9 September 2012 inclusive,** recognising that the Olympics and Paralympics represent a unique opportunity for UK business;
- **introduce corporation tax reliefs from April 2013 for the video games, animation and high-end television industries, subject to State aid approval and following consultation, as part of a new ambition to make the UK the technology hub of Europe;**
- **improve and reform the Enterprise Management Incentive scheme (EMI), which helps SMEs recruit and retain talent, by providing additional support to help**

start-ups access the scheme, consulting on amending restrictions that currently prevent the scheme being used by academics employed by start-ups, and more than doubling the individual grant limit to £250,000, subject to State aid approval;

- **introduce an 'above the line' R&D tax credit from April 2013 with a minimum rate of 9.1 per cent before tax.** Loss-making companies will be able to claim a payable credit. The Government will be consulting on the detailed design of the credit shortly and final rates will be decided following consultation;
- **publish a strategy for gas generation in autumn 2012, recognising that gas-fired electricity generation will continue to play a major role in UK energy supplies over the next decade and beyond;**
- **introduce a package of oil and gas tax measures to secure billions of pounds of additional investment in the UK Continental Shelf;**
- later this year, **pilot the best way to introduce a programme of enterprise loans to help young people set up and grow their own businesses,** building on the support already available including the National Enterprise Allowance;
- **accept the Low Pay Commission's recommendation for below inflation increases to the National Minimum Wage** to support employers and help protect jobs;
- **conduct an internal review to examine the role of employee ownership in supporting growth and examine options to remove barriers, including tax barriers, to its wider take-up.** The review will also consider the findings of the work on employee ownership being led by the Minister for Employment Relations, Consumer and Postal Affairs, due to report in summer 2012, and will conclude ahead of Autumn Statement 2012; and
- **consult on simplifying the Carbon Reduction Commitment (CRC) energy efficiency scheme to reduce administrative burdens on business. Should very significant administrative savings not be deliverable, the Government will bring forward proposals in autumn 2012 to replace CRC revenues with an alternative environmental tax, and will engage with business before then to identify potential options.**

The third section of Chapter 1 sets out further information on these and other announcements and on the progress made in implementing the reforms set out in *The Plan for Growth* and Autumn Statement 2011.

Annex A sets out further information on spending in the next spending review period.

Annex B presents further information on the estimated cumulative distributional impact of measures introduced by the Government.

Annex C presents financing information.

Annex D presents selected tables from the OBR's *Economic and fiscal outlook*.

Budget decisions and Government spending and revenue

A summary of Budget policy decisions is set out in the table below. Chapter 2 provides more information on the fiscal impact of the Budget, and sets out all new Budget announcements in full.

Table 1: Summary of Budget policy decisions[1]

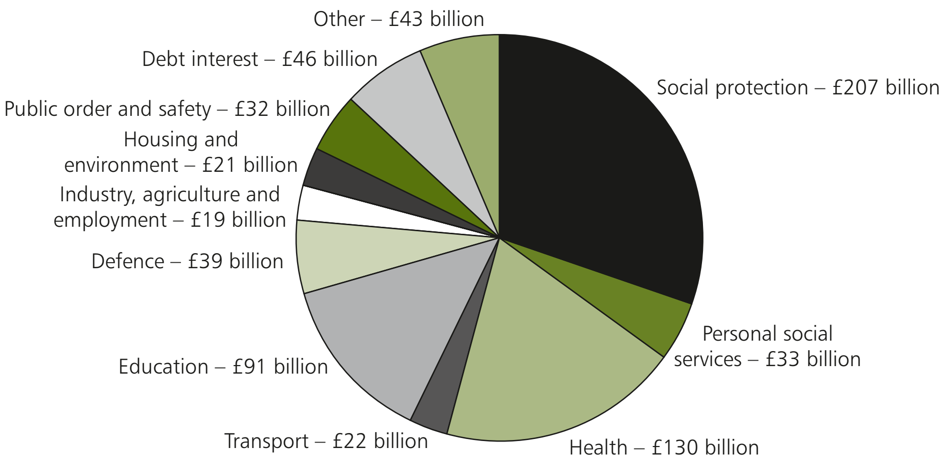
	£ million				
	2012–13	2013–14	2014–15	2015–16	2016–17
Total tax policy decisions	+560	-1,550	-520	-500	-30
Total spending policy decisions	-90	-160	+755	+960	+1,170
TOTAL POLICY DECISIONS[2]	**+470**	**-1,710**	**+235**	**+460**	**+1,140**

[1] *Costings reflect the OBR's latest economic and fiscal determinants.*

[2] *Forestalling impact of additional rate reduction and cap on unlimited tax reliefs is set out in Table 2.1.*

Chart 1 presents public spending by function. Total Managed Expenditure (TME) in 2012–13 is expected to be around £683 billion. TME is divided into Departmental Expenditure Limits and Annually Managed Expenditure. TME is reduced by £28 billion in 2012–13 as a result of the one-off transfer of assests from the Royal Mail Pension Plan to the public sector. This is reflected as a reduction in the 'Other' category. For more detail see box 4.1 of the *Economic and fiscal outlook* published alongside Budget 2012.

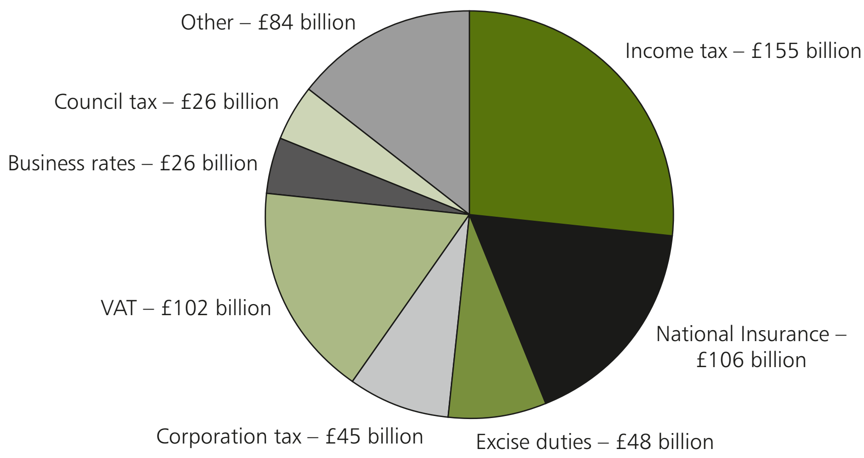
Chart 1: Government spending 2012–13



Source: Office for Budget Responsibility, 2012–13 estimates. Allocations to functions are based on HM Treasury analyses.

Chart 2 shows the different sources of Government revenue. Public sector current receipts are expected to be around £592 billion in 2012–13.

Chart 2: Government receipts 2012–13



Source: Office for Budget Responsibility, 2012–13 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum due to rounding.